

Moving vs. Renovating



SCENARIO

The Bartlett and the King families each own an in-town home valued at \$300,000. Both families have a balance of \$175,000 on their mortgage. The Bartletts are interested in remaining in their home and remodeling while the Kings are interested in moving to another home in the area. Which owner do you think stands to benefit the most?

THE KING FAMILY - PURCHASE A \$500,000 HOME

Home Value.....	\$ 300,000
Balance on Mortgage.....	\$ 175,000
Equity	\$ 125,000
Equity.....	\$ 125,000
Real Estate Commission (7%).....	\$ 21,000
Repairs/Improvements to Sell.....	\$ 3,000
Moving Costs.....	\$ 3,000
Closing Costs / New Buyer (2%).....	\$ 5,000
Net Out for New House	\$ 93,000

New House.....	\$ 500,000
Loan / 85% LTV / Borrowing.....	\$ 425,000
Down Payment	\$ 75,000

Down Payment.....	\$ 75,000
Closing Costs.....	\$ 8,500
Pre-paid.....	\$ 3,000
Move-in Costs.....	\$ 7,000
Total	\$ 93,500

Out of Pocket	\$ 500
Equity in New Home	\$ 75,000

Payment on \$425,000 loan at 30 year fixed
6.75% P&I = \$2,757

THE BARTLETTS RENOVATE A \$500,000 HOME

Home Value.....	\$ 300,000
Balance on Mortgage.....	\$ 175,000
Equity	\$ 125,000
Project Cost.....	\$ 150,000
Soft Costs.....	\$ 10,000
Repairs/Improvements to Sell.....	\$ 0
Moving Costs.....	\$ 0
Closing Costs / New Buyer (2%).....	\$ 0
Total Project Costs	\$ 160,000

Mortgage + Project Cost.....	\$ 335,000
Loan/Refi-rehab.....	\$ 335,000
Down Payment	\$ 0

Down Payment.....	\$ 0
Closing Costs.....	\$ 5,000
Pre-paid.....	\$ 3,000
Move-in Costs.....	\$ 0
Total Financed	\$ 343,000

Out of Pocket	\$ 0
Equity in Renovated Home	\$ 157,000

Payment on \$425,000 loan at 30 year fixed
6.75% P&I = \$2,757

CONCLUSION They both live in a \$500,000 house, but...

The Kings are happy with \$75,000 equity and only spending \$500 for their move.

The Bartlett's are happier with \$82,000 more in equity than the Kings, and \$582 less in mortgage payment.